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FISCAL IMPACT STATEMENT

LS 7337 **NOTE PREPARED:** Jan 9, 2011
BILL NUMBER: HB 1007 **BILL AMENDED:**

SUBJECT: Tax incentives.

FIRST AUTHOR: Rep. Messmer **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** Local
DEDICATED
FEDERAL

Summary of Legislation: *Enterprise Information Technology Equipment:* This bill permits a county, city, or town to provide a tax exemption for enterprise information technology equipment after December 31, 2012.

Personal Property Exemptions: The bill permits a county to approve property tax exemptions for one or more types of personal property.

Rehabilitation Expense Deduction: This bill allows a property owner to deduct a part of the expenses incurred by the property owner in rehabilitating a building or structure on the property if the building or structure is at least 25 years old.

Abatement Enhancement: The bill permits a city, town, or county to enhance property tax abatement schedules to allow up to three years of 100% abatement if the business meets one of the following criteria: (1) locates in a large vacant building; (2) agrees to invest at least $10 million in the community; (3) rehabilitates and occupies property in designated downtown areas; or (4) locates in a county with high unemployment.

Alternative Abatement Schedule: The bill also authorizes an alternative method for calculating the amount of a property tax abatement that ties the duration of the abatement to the scope of the project as measured by the amount of the investment in real and personal property, the number of new jobs, and the wages paid on the new jobs.

Hiring Incentives: This bill authorizes cities and counties to pay hiring incentives for new employment in

their jurisdictions. It requires hiring incentives to be paid from local option income taxes received by the city or county and provides that the hiring incentives may not exceed the local option income taxes paid by the new employees.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *Personal Property Exemptions:* The Department of Local Government Finance (DLGF) would have to allow for the exemption to be claimed on the personal property tax return. The DLGF updates personal property tax returns each year. This change could be incorporated into the annual update.

Hiring Incentives: The president of the Indiana Economic Development Corporation (IEDC) would prescribe the form that would be used for an employer to apply for the hiring incentive under this provision. In addition, the IEDC would make determinations regarding whether jobs were relocated from one Indiana site to another. These jobs would not qualify for the incentive.

Designating units would forward copies of the incentive agreements to the IEDC. Employers would annually report to the IEDC the number of new jobs and the income tax revenue withheld from the employees in those jobs. The Department of Revenue, IEDC, or designating unit would be permitted to impose an assessment on an employer that has not complied with an incentive agreement or with the governing statute.

The IEDC would also be required to submit an annual report to the Legislative Council that contains:

1. The number of businesses receiving hiring incentives in the year;
2. The location of each business receiving hiring incentives in the year;
3. A summary of all state and local incentives provided to each business receiving hiring incentives; and
4. The number of jobs created and average salary paid by the businesses receiving hiring incentives.

The IEDC would have additional administrative burden in carrying out these provisions.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Overall Impact of Abatements, Deductions, and Exemptions:* This bill would make several changes to existing property tax abatements, deductions, and exemptions. It also allows a new personal property tax exemption. The use of the abatements and exemptions and the parameters set for each one would be a local decision. The overall impact of this bill is not known and depends on many factors.

As this bill relates to abatements, deductions, and exemptions for new or rehabilitated property, if there is an increase in real or personal property investment, the new property could, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the incentive, an increase in abatements, deductions, or exemptions could cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

Enterprise Information Technology Equipment: Under current law, a county or municipal fiscal body may grant a property tax exemption for new enterprise information technology equipment owned by an eligible business by adopting a resolution by December 31, 2012. The term of the exemption, however, may extend beyond 2012 and must be set in an agreement between the designating body and eligible business. This bill would remove the December 31, 2012, deadline and allow the designating body to adopt a resolution at any time.

Personal Property Exemptions: Under this provision, a county fiscal body would be permitted to adopt an ordinance to exempt personal property in the county from property tax. The county may exempt all personal property or it may exempt one or more classes of personal property, or property placed in service as of a specific date. If adopted by the county, the exemption would first apply to assessments in the following calendar year. Personal property could first be exempted under this provision for property taxes payable in CY 2013.

Taxpayers would not be required to file an application to receive the deduction. The exemption would be claimed on the personal property tax return. The local assessor (or the DLGF if the DLGF assesses the property) would determine the exemption amount if the taxpayer fails to enter the exemption on the personal property return.

The statewide total net tax on personal property is estimated at about $916 M in CY 2013. Personal property tax exemptions would shift a portion of this amount from personal property owners to real property owners through increased tax rates. In many areas, the higher tax rates would also increase taxing units' revenue loss due to circuit breakers. Rate-controlled funds, such as cumulative funds, would suffer a revenue loss equal to the deducted AV amount multiplied by the fund's tax rate. Revenue losses would affect all civil and school units that serve the area where the exempted property is located. The actual fiscal impact would depend on local action.

Rehabilitation Expense Deduction: Under current law, a taxpayer may receive a deduction annually for five years that equals 50% of the cost of a real property rehabilitation that cost at least $10,000. The maximum deduction is $124,800 for a single-family dwelling and $300,000 for any other property type. In order to qualify for the deduction, the structure must be at least 50 years old. This bill would change the 50 year minimum age to 25 years and allow deductions for rehabilitated properties that are 25-49 years old.

Tax Abatement Enhancement: Under current law, designating bodies may approve property tax abatements in an economic revitalization area. The abatements may be granted for 1 to 10 years, or up to 5 years for real property located in a residentially distressed neighborhood, or up to 2 years if the property is an eligible vacant building. The amount of the assessed value that is abated starts at 100% in the first year and then declines each year on a scale determined by the total number of years for which the abatement is approved.

This provision would apply to property that meets one of the following sets of criteria:

1. The property is an eligible vacant building with at least 50,000 square feet and there is an agreement to use the property for an industrial or commercial purpose;
2. The applicant agrees to invest at least $10 M in property eligible for abatement,
3. The property is the subject of a proposed rehabilitation in a designated downtown area; or
4. The property is located in a county that has an unemployment rate which (1) has exceeded the statewide average rate by at least 2% in each of the last 2 years, or (2) was double the statewide average rate in the prior year.

A city or town fiscal body could, under the bill, designate any part of (1) the central business district, or (2) a commercial or mixed use area that has been the retail service and communal focal point within the community since the founding of the community, as a designated downtown area. The designated area could not exceed 15% of the municipality's geographical area.

The designating body would be able to enhance tax abatements for qualifying property by allowing an abatement up to 100% each year, for the first 3 years of the abatement. This provision would allow up to 1 additional year of abatements on qualifying eligible vacant buildings and it would allow for larger abatement percentages for real and personal property for the second and third years of an abatement.

Under current law, a real property abatement for an eligible vacant building reduces the existing tax base for up to 2 years. Under this bill, the tax base reduction could be extended for up to 1 additional year. A tax base reduction causes a shift of the property tax burden from taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. Abatements for other real and personal property, however, are limited to new property that has not been a part of the tax base.

Alternative Abatement Schedule: This provision allows designating bodies to use a points system to determine abatement lengths and percentages in lieu of the currently available schedules.

Point values would differ for a newly established or relocated business versus a business expansion. The points would be assigned based on:

1. The taxpayer's total investment amount;
2. The number of new full-time equivalent jobs;
3. The ratio that the average new employee wage bears to the state minimum wage; and
4. Infrastructure requirements already in place.

Under the alternative schedule, applicants could qualify for abatements for up to 11 years. The abatement percentages are also generally higher by year than under the current schedule. The use of this alternative schedule would be a local decision.

Hiring Incentives: Under this bill, a county or city that receives CAGIT, COIT, or CEDIT distributions could enter into a hiring incentive agreement with an employer. The incentive could be claimed only for new jobs.

The agreement would specify the duration and amount of the incentive with the duration capped at 10 years. The incentive may be stated as a percentage of local option income taxes withheld and remitted by the taxpayer on behalf of the new employees who reside in the county and it may include a fixed dollar limit. This incentive would be paid by the authorizing county or city from that unit's share of the legacy CAGIT, COIT, or CEDIT distribution.

The amount of LOIT paid to employers as incentives under this provision would depend on decisions by the county or municipality. The foregone LOIT revenue would only affect the designating unit. The fiscal impact of this provision depends on local decisions.

State Agencies Affected: Department of Local Government Finance; Indiana Economic Development Corporation; Department of Revenue.

Local Agencies Affected: County and municipal fiscal bodies; County and township assessors; County auditors; Civil taxing units and school corporations.

Information Sources: OFMA property tax database.

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